

CITY COUNCIL STUDY SESSION MINUTES

April 20, 2010

The City Council of the City of Norman, Cleveland County, State of Oklahoma, met in a Study Session at 5:30 p.m. in the Municipal Building Conference Room on the 20th day of April, 2010, and notice and agenda of the meeting were posted at the Municipal Building at 201 West Gray, and the Norman Public Library at 225 North Webster 48 hours prior to the beginning of the meeting.

PRESENT: Councilmembers Atkins, Butler, Cubberley, Dillingham, Ezzell, Griffith, Kovach, Quinn, Mayor Rosenthal

ABSENT: None

DISCUSSION REGARDING THE FYE 2011 BUDGET – GENERAL FUND AND SPECIAL REVENUE FUNDS.

Mayor Cindy Rosenthal said this will be the first of several study sessions regarding the FYE 2011 Budget including a public hearing. She said there has been months of monitoring a deteriorating budget due to the effects of the country's worst recession since the Great Depression. She said Oklahoma has trailed other states in feeling the effects of the economic crisis, but there is no doubt the harsh realities of the national economic downturn now confronts Oklahoma and Norman specifically. Mayor Rosenthal said the City, led by the hard work of the City Manager, the Finance Staff, and the Finance Committee has adopted Cutback Management Policies that involve cost saving strategies but, unfortunately, those efforts have not been enough and cost cuts for early recovery have waned. She said the City Council must adopt a balanced budget as required by law and the City Manager has personally struggled with the proposed budget cuts. She said members of the Council do not take this lightly and they do realize the stress this places on employees, the impact the cuts will have on the community, whether in personnel layoffs and furloughs, the loss of resources to social services and arts agencies, and loss of bus services that will affect the elderly and lower income in the community. She said behind the numbers are real people, individuals and families, and there are important assumptions being made in the proposed budget, which could mean deeper cuts in the near future. Mayor Rosenthal said the community should not be deceived by the suggestion that there is a silver bullet or painless way through this budget cycle. She said Norman is not alone in the challenges being faced and the State's budget woes are well publicized and will affect the Norman community deeply. She said the University of Oklahoma (OU), for the second year in a row, will not be providing employee pay increases and is considering a 20% cut in its contributions to employee retirement plans. She explained that Study Sessions are work sessions for City Council to question Staff and the City Manager and the public will have an opportunity to speak on all aspects of the City Budget in a public hearing scheduled for May 25th. She encouraged citizens to review the proposed budget document on the City's website or the Norman Public Library.

Mr. Steve Lewis, City Manager, said a budget is about setting priorities and the budget presented tonight is approximately \$134 million and is as complicated as most municipal budgets. He said Staff will be discussing expenditures (expenses) and revenues (income). He said the General Fund is the work horse of all City services and funds key departments that impact the quality of life in Norman. The General Fund's primary revenue source is sales tax, which is strained by a contracting economy.

Mr. Anthony Francisco, Finance Director, introduced Ms. Suzanne Krohmer, Budget Manager, and thanked the City Manager and City Staff for their cooperation throughout the budget process and said Ms. Krohmer has done the lion's share of work on the budget and deserves the lion's share of the credit. He said the budget process has been underway for the past ten months and Council has been involved every step of the way. He provided an overview of the FYE 2011 Budget schedule of meetings and summarized the budget documents consisting of a community profile; demographic and socioeconomic information; statistical data; financial policies; financial summaries; department details; and Capital Summary and Capital Project Budget.

Mr. Francisco said the General Fund is the general operating fund of the City and is used to account for all financial resources except those required to be accounted for in another fund, i.e., everything that serves the general public and those things that cannot be denied to any citizen or any visitor to the City are accounted for in the General Fund. He said Special Revenue Funds are used to account for the process of specific revenue sources that are legally restricted to expenditures for specific purposes, i.e., Emergency 911 Tariff applied to everyone's land phone bill or cell phone bill and those can only be used, by law, for emergency communications. He said revenues from the tariff are not enough to pay for the dispatch and emergency services budget so that fund gets subsidized from the General Fund.

Mr. Francisco said the United States (U.S.) economy has been in a recession since the fourth quarter of 2007, making this the deepest and longest recession since the 1930's. He said the National unemployment rate is 9% and some cities are over 10% to 15%. He said, because of the economic downturn, consumer behavior is depressed and economic recovery is slated to be more sluggish in the recovery of this recession than in past recessions.

Mr. Francisco said historically, Oklahoma enters recessions later and recovers later and Norman has been stabilized from the National recession because it is governmental based, meaning that the two largest employers are OU and Griffin Memorial Hospital, State governmental entities, and as "the pain of the recession" is being exercised on State Agencies, and because our economy is in many ways driven by those State Agencies, Norman is just beginning to feel the pain and will be disproportionately affected when moving forward. Local construction industries had boom periods in 2006 and 2007 and were depressed in 2008 and 2009, and are still not having large building booms. Retail sales continues to be negatively affected by consumer behavior, which impacts Norman's General Fund heavily. Mr. Francisco said 2.37% of sales tax is used for operations and general governmental sources; 0.7% is dedicated to capital expenses; 0.5% is dedicated to public safety; and a small apportionment is dedicated to the University Northpark Tax Increment Finance District (UNPTIF). He said since 2009, Norman's sales tax growth rate has decreased significantly with a projected decline of 2.39% and the current year over year decline has not happened in over 22 years.

Mr. Francisco provided an overview of General Fund revenue and expenditure assumptions as follows:

- ❖ Sales tax - 0% growth
- ❖ Use tax, franchise fees, and other tax revenue - 3% growth
- ❖ Licenses, permit, and services fees - 1% growth
- ❖ Transfers from water and wastewater utilities - 2% growth
- ❖ Salary and benefit expenses – 5% growth
- ❖ Expenditures in internal service category – 2% growth

Mr. Francisco said proposed budget decreases are as follows:

- ❖ Reduction of workforce - 30 full or part-time positions
- ❖ Furlough of 96 hours per year for each City employee (approximately one day per month)
- ❖ Implementation of six pre-determined dates to close City facilities
- ❖ Reduce expenditures in services, maintenance and supply, and materials – 2% across the board
- ❖ No budgeted cost of living increase for FYE 2011
- ❖ No budgeted merit increases for FYE 2011
- ❖ Health insurance cost to increase 0.5% - \$6,635 for single coverage and \$13,412 for family coverage

Mr. Francisco said employee turnover savings is estimated at \$200,000 or 0.4% of the payroll with an assumed attrition related savings of 1/2%.

Mr. Francisco said major budget issues facing the City includes a declining General Fund balance; cuts in funding to outside agencies and social service agencies; long term realignment of resources and program priorities; implementation of Public Safety Sales Tax (PSST) Special Revenue Fund; review of utility rate structure and implementation of a stormwater/drainage utility; utility enterprise capital improvement projects (CIP) and

operations; maintenance of existing facilities; and UNPTIF and TIF financing. Mr. Francisco said the General Fund Balance's total target reserve is 8% with 6% to be held for operations, self insurance for medical claims, worker's compensation claims, and tort claims and the remaining 2% is an emergency reserve.

Mr. Francisco said the City is spending more money than it is taking in and has to dip into the reserve fund balance to pay for ongoing operational expenses and the City is projecting a 2.9% fund balance for FYE 10. The City must realign mission and community goals and ways this could be accomplished would be by identifying programs of lower priority for elimination; increasing sales tax rate for operations (takes a vote of the people to change); broadening the purpose of the 7/10% capital sales tax implemented in 1976 (a dedicated source of revenue and requires a vote of the people to change); implementing a stormwater utility to address drainage needs; and increasing the E911 Tariff rate to 3% or as high as 5% (takes a vote of the people to change).

Mr. Francisco also discussed the PSST Fund. He said, since its inception in 2008, it has been a part of the General Fund and, at the direction of Council, it is being broken out into a new fund starting in FYE 2011. He said all revenues and expenditures are tracked and the PSST Fund has an excess of revenues within the General Fund estimated to be approximately \$5.99 million. He said through the PSST Fund the City will hire three Master Police Officers and two Police Officers. Fire Station No. 8 on 36th Avenue N.W. is under construction and Fire Station No. 9 on the east side of Norman will begin construction in FYE 2011.

Mr. Francisco said the recommended capital outlay purchases to be paid from the Capital Fund include replacement of a 1990 fire pumper truck in the amount of \$420,000, Graphical User Interface software for Development Services in the amount of \$96,500, and replacement of Digital Recording Equipment in the E911 Dispatch Center in the amount of \$93,000.

Mr. Francisco said topics for the April 27th budget study session will consist of Enterprise Fund Balance and rate structure review, Strategic Water Supply Plan, and Enterprise CIP and Operation. The Capital Budget will be discussed on May 4th including maintenance of existing facilities, UNP Development and TIF financing, and 2010 General Obligation Bond Program.

Councilmember Cubberley asked Mr. Francisco to explain the difference between the 2.9% decline in sales tax over the last year and the decline in the budget. Mr. Francisco said there is a greater decline in the General Fund sales tax revenues and the difference is primarily made up from the apportionment to the UNPTIF, so in addition to the overall sales tax decline, some of the sales tax dollars is being apportioned to the TIF. Mayor Rosenthal asked Mr. Francisco to talk about the number in terms of the shortfall and how the City came to this point in knowing what the actual projections are in terms of budget assumptions. Mr. Francisco said there has been public discussion regarding various projection numbers as the fiscal year has progressed and there was a shortfall of \$4 million quoted, which was a shortfall on the revenue portion. He said, in a later meeting, there was discussion regarding a shortfall of \$6 million of net shortfall between revenues and expenditures. Conditions continued to worsen as time progressed and projects were updated accordingly and the projected shortfall continued to grow. Recently, an \$8 million shortfall was projected at the end of FYE 10 if no action was taken. He said Staff has been working on making changes with hiring freezes and mandated departmental savings totaling \$1.5 million for FYE 10.

Mr. Francisco said even with actions being taken, there will still be a shortfall as expenditures are outpacing revenues so the City is continuing to address the problem on an ongoing basis and some of those options are more drastic. Mayor Rosenthal asked what the proposed budget includes in terms of the General Fund reserve balance for FYE 11 and Mr. Francisco said there is a projected General Fund Reserve of \$1.4 million, which is short of targeted reserve levels.

Mayor Rosenthal asked about the implications on the City's bond rating and Mr. Francisco said the bond rating agencies would be concerned with the ongoing decrease of the fund balances and will consider that when rating the City's outstanding debt or proposed debts such as the General Obligation Bonds approved by voters in March 2010. In addition, there are no adequate reserves for self insurance claims, health claims, workers' comp claims,

or tort claims. He said since the City is self insured, which requires approval from the State, this could raise questions in the State's mind as to the City's ability to meet its obligations for future claims.

Mayor Rosenthal asked what the estimated savings would be for the reduction in force and furlough proposals. Mr. Francisco said the workforce reduction is estimated to save \$1.7 million, but does include payouts for terminated employees or unemployment compensation as required by statutes and the furloughs are estimated to save \$2.2 million.

Councilmember Kovach asked if the FYE 2011 projected revenues are based on actual or projected FYE 2010 figures and Mr. Francisco said it would be compared to revised projected FYE 2010 figures, not budgeted figures. Councilmember Kovach said when the City first developed the PSST, there were several members of the Finance Committee that had asked for the separation from the General Fund and asked if the presence of PSST funds in the General Fund had helped mask budget problems. Mr. Francisco said, in every presentation to Council or the Finance Committee, he always pointed out the reserve for the PSST and the funds were clearly accounted for, but if someone did not know how to read the budget, it is possible that condition of the General Fund could be conceived as masked. Councilmember Kovach said FYE 2012 through FYE 2015 looked like negative fund balances and Mr. Francisco said they were and explained that if the City continued on its current path, there will be a negative fund balance of \$12 million in FYE 2012; however, Council cannot legally adopt an unbalanced budget. He said the City will need to continue to evaluate and realign missions with resources.

Councilmember Dillingham asked if there was a reliable way to estimate how much sales tax is lost due to people's failure to pay the Use Tax and Mr. Francisco said there is no reliable way. Mr. Lewis said there is a statewide aggregate number, but he did not have that information readily available. Councilmember Dillingham asked Mr. Francisco to explain how Use Tax is paid and Mr. Francisco said, what should happen, is when online purchases are made, there should be an inclusion of a fixed, nationwide sales tax or Use Tax that would apply to the sale. He said there is a Streamlined Sales Tax Initiative implemented by the National League of Cities, which has been adopted by most States and that major retailers voluntarily comply, but there are many retailers, such as Amazon, that do not comply and it is difficult to enforce. He said Amazon is being sued by many states and cities because of their non-compliance.

Mayor Rosenthal said the Oklahoma Municipal League (OML) has created a Revenue Efficiency Task Force due to a general concern about the collection and receipt of taxes that go to the Oklahoma Tax Commission (OTC) and the lack of transparency in that process. She said the City of Tulsa is issuing a Request for Proposal (RFP) to collect their sales tax because they are concerned they are not receiving all their sales tax from OTC. She said the Task Force will work with OTC to insure standardized forms and better traceability.

Councilmember Cubberley said there is a proposed reduction of 2%, across the board, for services and supplies and asked if the 2% reduction, as stated earlier, is over and above the \$1.3 million already found and Mr. Francisco said yes. Councilmember Cubberley asked if he was correct in assuming that if purchasing has been deferred or eliminated for FYE 2010 then the additional 2% would to impact those supplies even more, so that totals at least 3 1/2 % and Mr. Francisco replied yes.

Mayor Rosenthal asked what percentage of the City's workforce is in the proposed reduction and Mr. Francisco replied 4.4%. Mayor Rosenthal asked how that compared to previous years in terms of the workforce and Mr. Francisco said he would have to research that information. Mr. Lewis said he believed it brought the workforce percentage to FYE 2006 and FYE 2007 levels. He said there were major cutbacks in 2005, and the City was able to reinstate some of those positions in 2007. Councilmember Kovach said the reduction in workforce would save around \$1.7 million without the payouts and asked if there was a ballpark figure on potential costs of payouts. Mr. Francisco estimated the payouts at 5% to 10% of the savings. Councilmember Dillingham asked whether or not furloughs were going to apply to Department Heads and whether or not there would be additional salary adjustments pertaining to Department Heads. Mr. Lewis said the furlough program would apply to all City employees, but there has been no discussion regarding additional salary adjustments for Department Heads. Councilmember Atkins asked if furloughs would be equal to a 4% pay reduction and Mr. Lewis replied it would be around 4.65%. Councilmember Butler asked if there was a program for early

retirement and Mr. Francisco said early retirement options were explored, but the upfront costs of early retirement would outweigh the benefits in FYE 2010.

Councilmember Kovach said he would like Council to be given an alternative to the reduction in workforce other than the twelve positions that are already vacant. Mayor Rosenthal asked what portion of the budget is personnel related and Mr. Francisco replied 67% and that it is difficult to make significant savings in the General Fund budget without impacting employees. Councilmember Dillingham asked how many additional furloughs would be needed to save positions and Mr. Francisco said the City would have to double the proposed furlough program. Councilmember Cubberley asked if some of the furlough savings was attributed to other funds and Mr. Francisco said yes, the \$2.2 million savings in furloughs would be City wide, but not all savings would come from the General Fund.

Councilmember Cubberley said each department issues goals and productivity measurements, but there does not seem to be a change from FYE 2009 to FYE 2010. He said when you eliminate positions, you impact services because there is only so much the remainder of Staff can perform. He asked Mr. Francisco to explain why there is not a change in the goals. Mr. Francisco said departments were only informed of the reduction in workforce that would affect their departments within the last few days whereas the objective statements were written several months ago; therefore, some would have to be changed to reflect the new realities. Councilmember Cubberley asked if once the final budget is adopted will the goals be changed to reflect the real situation rather than the ideal from a year ago and Mr. Lewis said yes. Councilmember Dillingham asked if the service areas where adjustments will be made for important public safety issues in terms of mowing frequencies such as intersections would be prioritized and Mr. Lewis replies yes.

Councilmember Ezzell asked if the dedicated portion of the capital sales tax was a citizen initiative or by Council and Mr. Francisco said he did not know and Councilmember Cubberley asked that that information be provided to Council. Mayor Rosenthal said that the information could be submitted at the Capital Budget Study Session scheduled on May 4, 2010.

Items submitted for the record

1. PowerPoint presentation entitled, "City Council Fiscal Year 2010-2011 Budget Study Session," dated April 20, 2010

The meeting adjourned at 6:55 p.m.

ATTEST:

City Clerk

Mayor